



“Natco Pharma Limited
Q2 FY2021 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the NATCO Pharma Limited Q2 FY2021 Earnings Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Prakash Agarwal from Axis Capital Limited. Thank you, and over to you, Sir!

Prakash Agarwal: Yes, thanks, moderator, and good morning, everyone. On behalf of Axis Capital, I welcome you all for the NATCO Pharma Q2 Fiscal 2020-2021 Earnings Call. Today, we have senior management represented by Mr. Rajeev Nannapaneni, Vice Chairman and CEO; and Mr. Rajesh Chebiam, Vice President, Investor Relations and Corporate Communications. Over to you, Rajesh. Thank you.

Rajesh Chebiam: Thank you, Prakash and good morning everyone and welcome to NATCO’s conference call discussing our earnings results for the Q2 of FY2021, which ended September 30, 2020. Hope all of you all are continuing to stay safe during this COVID times. During this call, we may be making certain forward-looking statements, which are predictions, projections or statements about future events, and anything said on this call, which reflects our outlook for the future, or which could be construed as a forward-looking statement must be reviewed in conjunction with the risks that the company faces. I would like to state the material of the call, except the participant questions, is the property of NATCO and cannot be recorded or rebroadcast without NATCO’s expressed written permission.

We will begin the call with results highlights, and then be followed up with an interactive Q&A session. I hope you have received the financials and the press release that were sent out yesterday. They are also available on our website. For the Q2 FY2021 ending September 30, 2020, the company recorded consolidated total revenue of 827.9 Crores as against 518.9 Crores for the same period last year, this reflecting about 59.5% growth on the topline. The net profit for the period on a consolidated basis was 203.9 Crores, as against 117.7 Crores same period last year, also showing a growth of roughly 73%.

Segmental review is again in our press note. Just one final statement the board of directors recommended a second interim dividend of Rs.3 per equity share for FY2021. Thank you again and we will take questions now. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ravi Dharamshi from Valuequest. Please go ahead.

Ravi Dharamshi: Thanks for taking my question. I just want to understand, what is the reason for the big increase in the other expenditure?

Rajeev Nannapaneni: We had 2 to 3 events that have happened. Overall, I am just giving you a general view of the expenditure. We had a onetime employee increment because of COVID, we decided to defer the increments, so at this time we did a onetime charge in the increments and incentives so that happened in Q2 and then we had some cost related to some litigation that we had expensed these are the two major reasons and we had some cost related with setting up REMS about 3 to 4 products, at the same time the cost came through so that is why we had high other expenses. Thank you.

Ravi Dharamshi: The Canada Revlimid settlement has been recognized all that was to come?

Rajeev Nannapaneni: I cannot answer that question, Ravi. I think we have already answered those questions in the past, so I think we have settled a product and that is what I can say.

Ravi Dharamshi: Sir, all I am asking is have you recognized everything or is there still some pending, I am not asking for specific amount?

Rajeev Nannapaneni: As of now, we recognized the revenue based on what we have received, I think that is what we have.

Ravi Dharamshi: Alright, thank you.

Moderator: Thank you. We move the next question from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

S. Padmanabhan: Thank you for taking my question. Sir, if I look at the topline in this quarter, there is very sharp increase, just to understand if you can give some colour with respect to the quantum, which we had got from this Revlimid settlement mean would it be like 20 million, 30 million, how should the core business be if not for this?

Rajeev Nannapaneni: I cannot answer that question my friend; I am bound by confidentiality.

S. Padmanabhan: Sir, with respect to the launch, is there any date with respect to Canada, which you can actually give some clarity whether it will be in FY2021 or FY2022, I mean not specifically asking which quarter or which date it should come through?

Rajeev Nannapaneni: I am sorry my friend, I cannot answer that question, the agreements are strong, and we are bound by confidentiality not to disclose the date.

S. Padmanabhan: Sure, and Sir, with respect to the earlier press release today with respect to this approval of Pomalyst, basically says that you have also settled the product, can we get some more clarity on this whether this is going to be a meaningful product when can we expect this, etc.?

Rajeev Nannapaneni: Sure, as the press release said, we filed in the first wave and I think we are one of the first to file, I think there are multiple generics so far two generics have been approved from what I have seen in the public domain. I think Eugia and Natco are the approvals. So it is a very good product. It is a nice REMS product. It is nearly \$1 billion in sales and we got full approval, which is good, and second thing is we also decided to settle the litigation. Again, they have decided, the date of launch has been kept confidential, but we have settled the litigation as well.

S. Padmanabhan: Sure and Sir, the same questions with respect to how much, if you can break the domestic business into primarily oncology, third-party and the hepatitis C, that should be pretty good for us?

Rajeev Nannapaneni: I think I am not doing outright split for competitive reason. But overall, I think the sale numbers of the domestic are reflected. But I will just give you a flavor of what is going on. So basically, what has happened is, I think we have struggled for 2 reasons in the domestic. One is that the hepatitis C sale has dropped. So that has played an impact. The second is because of COVID, number of people who are going to the hospitals for oncology treatment has been problematic. So we are seeing about 70% to 75% of the sale potential being realized because of lower hospitalization in cancer treatment. As you are aware, a lot of patients are deferring treatment of cancer because of COVID fears and as you know, cancer treatment could also lead to immunosuppression and there are certain concerns. It is difficult, and I think that is the reason why our domestic revenue is a bit weak, but my sense is that it will get better. I think once COVID settles down, I think we will be able to see an improvement.

S. Padmanabhan: Thanks a lot. I will join back in the queue.

Moderator: Thank you. The next question is from the line of Sriraam Rathi from ICICI Securities. Please go ahead.

Sriraam Rathi: Thanks a lot for the opportunity. Firstly, Sir, on looking at the revenue increase and the EBITDA increase, it is being specifically, they could be moved to the settlement income only in this quarter, so is it fair to assume that you would have also supplied initial supplies before this?

Rajeev Nannapaneni: I think this quarter has a lot of Tamiflu supply. So we fortunately won some very good tenders, basically, in pandemic, what has happened is a lot of governments have stopped product. There are a lot of government supplies were done and a lot of private market supplies were done. For example, we launched Tamiflu for the first time in Brazil. We are the first to get in Brazil. So that has been very good. We have had a good order from there and for that reason, sub has done well, and we had very good government orders from Canada as well. So that we are supplying as we speak. So that has done well and in the U.S. also, we have stocked some material with our partner and so basically, I know the way we do the accounting is we build the stock to our partner Alvogen and once they actually sell the product, the profit share is recognized. I think if all goes well and the tender supplies go on time and everything goes well, assuming all goes well, then we will be able to recognize the profit share, the benefit of that, you will probably see in this Q3 and the Q4. So I mean, if you look at even our balance sheet in the past, generally, Q1, Q2 tends to have lower margin because there is a lot of stocking that we do and Q3, Q4 is when the actual revenue gets realized.

Sriraam Rathi: That is helpful. Sir, just one more question on the agro chemical, I mean this quarter in the segmental business we see Rs.1 million was traded for agro chemical, does that mean that we have launched any specific product in the market, and how should we look at that?

Rajeev Nannapaneni: What we have done is, I think, we have launched a portfolio of products, which are all me too. Again, I am not going to comment and say that these are blockbuster drugs, but products we have launched them and so that what we can do is we have a field force, and they are promoting these products and they have started up with some modest sales and as for the economic side, we have started showing this as a segment of income, but this helps us get going. But again, the pipeline, we have one product that we already disclosed, which are awaiting approval and once all the hurdles are cleared, so that is the big one that we are expecting now and there are a couple of other blockbuster ideas as well, which we have not articulated in public domain, but we also have. So, I am excited about the vision. I think if all goes well, I think once we get clarity on the regularity and other issues, I think we can probably give us some upside, but what we have done essentially is, start the setup and start the marketing.

Sriraam Rathi: Got it. Thank you, Sir.

Moderator: Thank you. The next question is from the line of Ashish Thavkar from Motilal Oswal Asset Management. Please go ahead.

Ashish Thavkar: Thanks for the opportunity. So again, on the agro part of the business, while we are waiting for the approval to come in for the products, is it possible that we can leverage our distribution network, and we can start selling products of other companies with a profit share model?

Rajeev Nannapaneni: Which segment you are talking about? Agro, you are talking about?

Ashish Thavkar: Yes, agro.

Rajeev Nannapaneni: Agro, I think the model now, my friend, we just got started with a basic setup. I think we have the reps and we are covering, and we are trying to get all India coverage. So by end of this year, we should have enough reps to launch in all the major agro states in the country, starting from scratch. Selling other people's product and all, they are all different opportunities we are looking at. See but my strategy always has been trying to launch something unique. I do not like to do, me too. I do not like to do something where I believe that a lot of people are there. There is never an emphasis of strategy. So we are looking for something interesting. We have tied up with couple of companies on some interesting ideas. We will speak about it, as time goes along, but we have spoken about our pipeline and the major one I have already spoken about in the past, so that we are awaiting approval, so I think that is where we are.

Ashish Thavkar: Okay and the one big approval that we are waiting for, what is the hurdle now between the launch and approval, is it the court case?

Rajeev Nannapaneni: We have a pending litigation and I believe; we are in the final stage of approval. I think we cleared all the hurdles. We will see how it goes, but again, these things are slightly unpredictable, but I am hoping, the best case scenario, I think hopefully we will hear about the approval in this quarter I think that is our expectation, but again, it depends on if there are further queries from the regulators, but things are going well and as you know, we filed it last year. So I think it is about time we should get it, so about nearly little over a year, a year-and-a-half since we have filed.

Ashish Thavkar: I will get back in the queue. Thanks.

Moderator: Thank you. The next question is from the line of Kunal Mehta from Vallum Capital. Please go ahead.

Kunal Mehta: Sir, thank you for the opportunity. I have 2 questions, first regarding the India business, so we have been hearing a lot of possible change and a lot of even small entities, tier 2 entities

and smaller size entities that the onco business has recovered for them, could help me understand that since we have still been cautious in guiding for how the onco business will shape up in the future, so what is the disconnect here, I mean is there some sort of other procedures, which have recovered and the core chemotherapy business, which is roughly one-third of all the major onco businesses or hospital businesses, is that yet to recover, could you please help me understand?

Rajeev Nannapaneni: I think, again, different people have different portfolios, so I cannot judge what other people are doing, but I can only speak about myself. We are the largest players in this business and what I have seen is, I think, oral business has held up, but I think the chemo business has not done very well and we are probably at 70% or 75% of the original sale now. You should understand, the sale of the onco product happens in the big metros and if you see most of the sale happens in Delhi, Mumbai, Chennai, Hyderabad and Bengaluru. If you take these 5 cities, that represents majority of your sale and if COVID comes and affects other segments of the hospital, then it has an indirect impact because the patients are compromised, so the high amount of reluctance. They are okay with taking oral, but there is a lot of reluctance to take chemo. At least this is our experience. I do not know the other people's experience obviously, they can speak for themselves, but at least this is our experience. It has not come back to the same level. Actually, that is my personal experience and I think in pharma, if you see like if you look at antibiotics, if you look at pulmonology business because of the lack of interaction with people going out, certainly, there has been an impact and deceleration in sales. So certain segments have certainly been affected. Just to conclude the thought, except for cardio and diabetology, which has done extremely well, I think other segments have seen different levels of decline.

Kunal Mehta: Understood. So is it safe to say that we have not lost any major market share as such, I mean I am not sure how do you track the market share because the data is not available, so you have not lost any market share on the onco site, that is safe to assume?

Rajeev Nannapaneni: Yes, that is safe to assume. I do not think we have lost much market share, but the only issue is the hospitalization rate has not been as strong as pre-COVID. I think this is our experience.

Kunal Mehta: Sure and one last question on my side. When I compare your numbers for the same quarter last year, I see that, the export revenues have shaped up pretty well and of course, there is an element of segment income of revenue in Canada we have recognized, but when I see the corresponding jump in profit, I am sure just to assume a normalized figure for Revlimid Canada, the jump in profits would have been far better than given this sort of topline numbers, so is it the reason that since we have just booked the manufacturing margin for

Tamiflu and the profit share would come later that, that is the reason that the profit numbers are a bit lower than what they could have been?

Rajeev Nannapaneni: Yes, that is one reason and then we had a lot of onetime costs attached to them. See, if you want to set up a REMS in the U.S., I will give you an example, see if you want to set up a REMS product for a particular generic, it is \$3 million to \$4 million and when you are closer to approval and you are trying to launch a product in any particular market and see, we decided to do specialties. When you do specialties, you must spend on REMS. You want to spend on REMS, then you got to do the upfront cost of \$2 million, \$3 million setting up REMS and the way we do our accounting, I do not capitalize these expenditures. I expense them on the spot. So that is the reason why you have these onetimes and a lot of these onetimes happened this quarter, but it is what it is, right, so when you want to do a specialized product, which requires specialized marketing, you need to spend that extra money. So it is the nature of the ways our portfolio is and I know the other expense has, gentleman, I do not recollect the person who asked that question, but the other expense column also is very high, but a lot of it is one-time. I think when it normalizes then the base profitability that you see, reduction that you see in this quarter will be normalized

Kunal Mehta: Got it, Sir. All the best.

Moderator: Thank you. The next question is from the line of Subrato Sarkar from Mount Intra Finance. Please go ahead.

Subrato Sarkar: Sir, just a small question, in the last Q1 conference call press release, we have guided for 20% to 25% PAT growth, but in Q2 press release, there is no repetition of that, so have we changed that, do you have anything to add on that?

Rajeev Nannapaneni: No, I think as of now, if things go well, I mean, obviously when we make positive statement, we make certain assumptions. As of now, if you ask me a straight question, I feel I think we should be able to meet that, I think 20% to 25% is reasonable and I think if you look at the first half of the numbers, I think we are almost there. I think we already achieved, I think, nearly more than 300 Crores to 320 Crores of profit. So I think we should do well. This is all subject to, of course, how the next 2 quarters go, and I think the Tamiflu tenders also the deliveries also would be one major factor, but putting that as a major factor, yes, I think we should be okay. I think we should be able to deliver the number.

Subrato Sarkar: Okay. But Sir, is not that given this H1 result, is there a greater possibility that we surplus that target, like guidance?

Rajeev Nannapaneni: I think we have done well, and this is our expectation. So basically, I make certain assumptions on it. So, I think this is our expectation. That is all I can say.

Subrato Sarkar: Okay, perfect.

Moderator: Thank you. The next question is from the line of Shanti Patel from Shanti Patel Investment Advisors. Please go ahead.

Shanti Patel: Sir, I wanted to know what will be our revenue for the year ended March 31, 2020, approximately, and as on March 31, 2021, if you can give some light on that?

Rajeev Nannapaneni: I think you are saying March 2021, you are saying, financial year ending March 2021?

Shanti Patel: Yes. March 2021 and after March 2022.

Rajeev Nannapaneni: So let me speak about things that are relatively sooner. I think March 2021, our expectation is that we should do about 2400, a 20% growth is what our expectation is on the topline and on the profit and 2022 and all, we will talk about it, I think, once 2021 ends and I think the big factor in 2022 will be the Revlimid approval and launch because that is slated in 2022. So I think once I get the approval, which I am hoping to get in December, and I think we have more clarity. I think we will speak about it, closer to early next year. That will be a more appropriate time to talk because I will have more clarity on other things that are also happening in our agro business as well, so I feel comfortable talking about 2022 later, right.

Shanti Patel: Okay. What about our loan, can you give some guide?

Rajeev Nannapaneni: I will answer that question. I think I can speak about what we have as of today. As of September 30, 2020, our total cash and cash equivalents, including bonds, fixed deposits, bank deposits, everything together, shares, liquid shares is about 1065 Crores is the cash and the cash equivalents in the books and the total debt that we have is about 431 Crores of which actual borrowing is about 105 Crores is short-term working capital borrowing, 322 Crores, we did discounting, where we have sold a receivable or export receivable, that is where we are.

Shanti Patel: Thank you.

Moderator: Thank you. The next question is from the line of Dhires Pathak from Goldman Sachs. Please go ahead.

- Dhires Pathak:** Thank you. This other expense you said is because of some REMS set up in U.S., but I thought we sell through partners and partners would be incurring that cost, so can you just explain that part again?
- Rajeev Nannapaneni:** Some REMS, like the earlier REMS, we had through partners, but the newer REMS we are sharing. We have 5 REMS products that we are doing, and I think we publicly disclosed, we are doing pomalidomide in Canada, we are doing pomalidomide in the U.S., we are doing Bosentan in the U.S., just giving a flavor of what we are doing. So in these newer deals, we are putting up most of it because they are getting a higher profit share in the newer transactions, so we are putting up major portion of the cost.
- Dhires Pathak:** So which is a new REMS product launch in the U.S., or this is an anticipation of Revlimid?
- Rajeev Nannapaneni:** I only gave you a flavor of dollar REMS products. So, we have different expenditures for setting up different REMS for different products in different territories.
- Dhires Pathak:** Okay and one other question is on Acme, what is the total capital deployed as of now and how many marketing employees you have in that division as of now?
- Rajeev Nannapaneni:** I think Rajesh will answer that question. I think total capex spend so far this year is about 31 Crores. Overall, I think we spent about 140 Crore.
- Rajesh Chebiyam:** 140 Crores is roughly the capex spend for that.
- Dhires Pathak:** It shows 175 Crores, that will be a fair representation, right, segment?
- Rajeev Nannapaneni:** You get me so precisely; you are more precise. I am giving you a ballpark number in that reason. So, I will go with what you said. I do not have the numbers on hand, yes, it sounds about right, yes.
- Dhires Pathak:** Okay and in the marketing division, how many people you have in there as of now?
- Rajeev Nannapaneni:** On the marketing, what we have done is broadly, we are hiring people and I think totally, we are expecting to hire about 80 to 100 people to launch our portfolio products.
- Dhires Pathak:** But that cost is yet to hit the P&L or is it already in the P&L?
- Rajeev Nannapaneni:** It is already hitting the P&L. I think already we have hired about 50, 60 people, that is already being expensed in the balance sheet.

- Dhires Pathak:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Nikhil Mathur from Ambit Capital. Please go ahead.
- Nikhil Mathur:** Good morning everyone. Sir, My question was on the domestic oncology piece, if I remember correctly, till about first quarter, there was some bit of pricing pressure that was in place in the oncology and this pricing pressure had kind of emanated from the regulations on trade margins that had been implemented somewhere towards the end of FY2019, so is there an element of further pricing declines that is being witnessed still in this particular space?
- Rajeev Nannapaneni:** I think we spoke about this in the past. I think, again, the sake of reiteration, I think the 2 challenges we are facing, COVID and the pricing pressure to price control. That I think is an issue that we faced last year. I think that issue has settled now and now the issue that we are facing is COVID and probably these are the 2 big reasons why we are seen a lack of growth in our domestic business that is been affecting us.
- Nikhil Mathur:** Okay and secondly, on the API business, first quarter was good, and please correct me if I am wrong, there would have been some bit of chloroquine contribution in first quarter in the API sales, second quarter, again, the number is quite good on a sequential basis, you have been able to grow our API sales as well so can you give some colour, is it a new base we are working with or there some element of softening that is happening?
- Rajeev Nannapaneni:** No, it is not a new base, my friend. I think most of the API sales about, I would say, I do not recollect the number. Now you hold me to a number I do not recollect, but I think a good portion of the growth has come from the Tamiflu stocking quantity and these are all onetime orders based on how we are getting your tenders and all, so will it play out sequentially, the answer is no, but will it affect profitability, the answer is no because the margins are relatively lower on this.
- Nikhil Mathur:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Kunal Randeria from Edelweiss. Please go ahead.
- Kunal Randeria:** Good morning. So Rajeev, how has the pricing been on Tamiflu tender this time versus last year?

Rajeev Nannapaneni: I think different countries are different. I think it is reasonable, that is a very tricky question. I just add it as what it used to be in the past, the answer is no, but it is reasonable, thing on volume we might make money.

Kunal Randeria: Okay and then secondly, you briefly mentioned this, but since you have a date confirmed launch for Revlimid in March 2022, so would you be sort of only booking cost-plus in that quarter and then profit will be coming in the next year?

Rajeev Nannapaneni: I do not know, my friend. I think when we are closer to that launch, I will answer that question. It all depends on how they were and how will they give the profit share. I do not want to answer that question now. I think we will answer the question closer to that date.

Kunal Randeria: Fair enough and just one more question, I think the stand-alone gross margin has come down a fair bit, so is it fair to assume because of the business mix and higher API and lower domestic as well as the fact that you sent a lot of Tami for this time, so that is the reason your gross margin was lower?

Rajeev Nannapaneni: Yes and the REMS cost, all are playing a role.

Kunal Randeria: Okay, but REMS cost, would that impact gross margin?

Rajeev Nannapaneni: It will impact the other expenses.

Kunal Randeria: Okay, so the gross margin then should now return to the historical levels, right in the coming quarters?

Rajeev Nannapaneni: I think a lot of the onetime costs we have already done, so I think it should come back.

Kunal Randeria: Perfect. Thank you.

Moderator: Thank you. The next question is from the line of Sharan Pillai from Allegro Capital Advisors. Please go ahead.

Sharan Pillai: Thank you so much for the opportunity. I joined the call a little late, so if you could just reiterate what contributed to our significant growth in the quarter?

Rajeev Nannapaneni: Can you say it again, my friend. I did not catch your question, what contributed to what, I am sorry?

Sharan Pillai: Sorry, the growth that we faced in the quarter, could you just reiterate what contributed to that?

Rajeev Nannapaneni: What contributed to growth in earnings, I think it is there in the public domain. It is already available. Look at the press release. It is already there. It is already there in the public domain.

Sharan Pillai: Can I ask some question?

Rajeev Nannapaneni: Go ahead. You want to ask something else go ahead.

Sharan Pillai: We just put out a press release saying that we got approval for generic Pomalyst, I just wanted to know if there are any timelines in terms of whether we have launched it yet, or when we plan to launch at, what the opportunity is, just some general information?

Rajeev Nannapaneni: I already answered the question, but I will just repeat it one more time. See the total sale is about a little less than a billion and there are 2 full approvals. I think ours and Aurobindo and so we have a possible first-to-file on it and so what the press release conveyed was the fact that we got a final approval, which is great and we also conveyed the fact that we have settled the litigation with the innovator, so we will not disclose the date because the settlement agreement was very particular that we do not talk about the date.

Sharan Pillai: Thank you so much.

Moderator: Thank you. The next question is from the line of Abdul Puranwala from Anand Rathi. Please go ahead.

Abdul Puranwala: Thank you for the opportunity. Sir, my first question is related to the litigation in the Indian market related to apixaban and ticagrelor, so can you provide any update on those products?

Rajeev Nannapaneni: Apixaban, my friend?

Abdul Puranwala: Yes, Sir.

Rajeev Nannapaneni: Apixaban, we are selling, we are doing well.

Abdul Puranwala: Okay and any details on the kind of market share, which we have gotten on this product?

Rajeev Nannapaneni: I think we are doing well. Top of my head, I do not recollect the market share numbers. I think it is us and Pfizer are the only brands in the market, and I think value wise, we are

doing reasonably well. Top of my head, I do not recollect, but I can tell you we are doing well, that is all I can say.

Abdul Puranwala: Agro chem side, where we just mentioned on the call that we are confident of getting this approval in this quarter, any colour on that in terms of the topline or the related experience?

Rajeev Nannapaneni: It is a good product that is all I can say. It is a very good product. I think I understand the sales are at about 2000 Crores and that we are to indigenous production of the product. So I am expecting something good, but again, we are a new player in this business, so I do not want to make any estimation at this time, but all I can say it is a very interesting opportunity. I think once we are closer to the launch, I think we can speak about it. There are a few more hurdles to pass. I think once everything is settled, I think we will speak about it.

Abdul Puranwala: Understood, Sir. That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Susmit Patodia from Motilal Oswal Asset Management. Please go ahead.

Susmit Patodia: Rajeev, my first question, in the call said that they expect hospitalization rates to go back to 95% of pre-COVID in this quarter, would there be a similar uptick for the onco part of domestic business?

Rajeev Nannapaneni: I hope so. I think if that would happen this quarter, I think we should be able to see that, but see, expectation is one thing, when it actually happens it is another thing, so with COVID and all, I do not want to make any estimations on anything. So I said this many times in the call, I think every month is a new learning so I want to be cautious about making any estimation about things coming back to normal because now there is a lot of strong second wave happening all over the world. Now it has also started, especially in Delhi and all, you are seeing a very strong second wave of COVID, so I do not want to.

Susmit Patodia: But Rajeev, is October better than September, just from a trend perspective?

Rajeev Nannapaneni: Honestly, I do not understand this trend at all. I mean you will have one month, it will be very good, and then you will have one month, which is very bad and then you have one month, which is very average. It is a very yoyo kind of trend. You cannot make a trend analysis in the last 5-6 months. I am unable to make. I am being very honest with you; I am unable able to make any estimates.

Susmit Patodia: No, we appreciate it and secondly, Rajeev, how do you think NLEM and is onco a possibility, have you had any conversations?

Rajeev Nannapaneni: You are saying what do I think of NLEM you are saying, right, the price control?

Susmit Patodia: Yes, is there a possibility of onco coming there?

Rajeev Nannapaneni: It is already there. A lot of the onco drugs that we are selling were in NLEM, a lot of notifications happened in the last financial year, not this financial year, so the impact of that played out in the last financial year.

Susmit Patodia: So in the next term, there is no point for...

Rajeev Nannapaneni: Whatever decrease that we saw in the sales and all is already factored in, it is already normalized.

Susmit Patodia: And just lastly, from the Actim business, Rajeev, is the entire sales setup there already now in the P&L cost?

Rajeev Nannapaneni: The plant, I think, the plant production has not started. So, the moment, the first commercial lot is ready for production and we will start expensing it. General expenditures are expensed off like the running costs, like, for example, employees and all that is already in the balance sheet expense, but I think until the project is completed, it continues to be capitalized. I think my understanding is, let us say, next 2, 3 months, we get the manufacturing licenses. We are awaiting all the manufacturing licenses, then we will start expensing the operational costs. So far, the capital expenditure related is still being capitalized.

Susmit Patodia: Got it. Thank you, Rajeev. Wish you a very happy Deepavali and your team as well.

Moderator: Thank you. The next question is from the line of Karthik Mehta from Klay Securities. Please go ahead.

Karthik Mehta: Just wanted to understand, this will not be a typical Tamiflu season there, so how do you see the response now and usually, it is from end of November till probably end of or mid-February is when sales are at its peak, so in terms of early trends, and this is in particular only to the U.S. market, how do you see this and could you throw some colour on competition or in terms of expected market share, similar lines as past years?

Rajeev Nannapaneni: Honestly, I am not very excited. I believe that the retail opportunity is not so strong. I think relatively we are doing better in Brazil and Canada compared to U.S. I think if there any

tenders, the government tenders where you have fixed price on a large quantity that they are buying, then there is something interesting, which is what we are bidding on. I am not very excited about retail, Kartik. I think there are already enough approvals, and I think it is competitive. I am not very excited and I think there is a lot of behavior change among people, people used to go around freely and pick up small colds and viruses, but now I think that behavior is changing, a lot of sanitization, lot of masks. So I would go out and say that not be that many people will get sick. Again, I do not have a crystal ball, I do not know, but I will urge cautiously and say that the potential is not so good in retail. I mean that is a feeling I have, but again I stand to be corrected with that.

Karthik Mehta: Yes, which is fairly understood and appreciated from a company's perspective and from an individual's perspective, that should what be the likely outcome if people remain indoors, but then the agencies there would want to have a stockpile, and they would not want to face a situation where there was virtually have shortage of products?

Rajeev Nannapaneni: I think that is what we are seeing. We are seeing a lot of proactiveness among certain governments to stock products, which they have not stocked in the past, more aggressively, but having said that, retail business is different from government stocking it is different poles. This is completely driven by disease, somebody is sick, they will go to a shop and pick it up.

Karthik Mehta: I just have one more if you?

Rajeev Nannapaneni: Go ahead.

Karthik Mehta: In this case, where you see oncology sales is what completely driven on COVID, etc., but are you seeing any inventory, which is there in the system, I mean are you seeing competitors in this business being aggressive on the prices, especially this has been with regards to maybe hospitals?

Rajeev Nannapaneni: Could you rephrase that question, Kartik?

Karthik Mehta: Yes. Are you seeing aggressive competitive behavior by competitors in the oncology business in India?

Rajeev Nannapaneni: Yes and no. I mean, obviously, there is always aggressive competition in India, but relatively, it does not decline like the U.S. because there is an element of brandedness in this business, right, because you are having a brand, so the declines are not as sharp as, let us say, a generic business like in the U.S., but that is always there. I think that challenge

you always have in this business, but relatively, qualitatively, I think India is a much better business when you see declines because the branded generic nature of the business, the declines are not as sharp.

Karthik Mehta: Thanks a lot.

Moderator: Thank you. The next question is from the line of Kashyap Karthik from Blue Tree Capital. Please go ahead.

Kashyap Karthik: Thank you for the opportunity. Rajeev, 2, 3 questions, one profit shares from the settlement, Revlimid Canada, have we completely recognized this quarter or some more years to come?

Rajeev Nannapaneni: I am not going to answer anything about the settlement, my friend. I mean the agreement is very clear that I should not talk about it, so I will not answer that question.

Kashyap Karthik: Okay, and not even about the launch date?

Rajeev Nannapaneni: I am sorry, my friend. I cannot answer that question. It is not like I am trying to avoid your question, but I am bound by the confidentiality. I cannot answer that question.

Kashyap Karthik: Sure. Second question, is Lotus Pharma has got a tentative FDA approval on Revlimid, I mean they filed much, much later than us and have still got tentative approvals, so have we got some indications from FDA now at least saying thing is on the way?

Rajeev Nannapaneni: Yes. I think they have got approval before us that is absolutely correct and we had issues in our files, so which we had to correct, which obviously took us time, we think we have addressed all the questions, and we have a date in December. So, I am hopeful that we get the approval. Us getting a late approval financially does not have an impact because we have a contractual launch date, which is already there. So, there is no impact on us financially, but having said that, yes, I am hoping we will get the approval. I think we have answered all the queries and it is also a good sign that somebody else already got an approval, which means that the REMS and everything is set. So, I think I am in a way more positive that I think it should happen this time.

Kashyap Karthik: Got it. Congratulations on the pomalidomide approval, the patent expires 2024 in U.S., is it a reasonable estimate that we see a launch in FY2022?

Rajeev Nannapaneni: I cannot answer that question, my friend. I am sorry. I am bound by confidentiality. The only 2 things I can say about that is we got our final approval, and that we settle the litigation with a confidential launch date.

- Kashyap Karthik:** Got it. And that U.S. FDA approval is done for that?
- Rajeev Nannapaneni:** Yes, it is there on the website also. The final approval is there. I think it is on our partners' name.
- Kashyap Karthik:** Sure. Rajeev, I will ask a very broader question, I mean we have like 3, 4 molecules, right, Bosentan, Nexavar, Everolimus, lapatinib, pomalidomide, do not tell us the data, but can we at least expect the launch of these 4 molecules for FY2022 or FY2023, I mean in the next 2 years, at least just from our visibility perspective, do not tell us the year or the date, but just tell us if it is going to launch in next 2 years?
- Rajeev Nannapaneni:** I cannot answer. See, what I can tell you, I mean, as you rightly said, these are all exclusivities that we have, as you rightly said, Nexavar, we have sole FTF. Carfilzomib, we also have a settlement where we are exclusively on 1 strength where is sole FTF and other 2 strengths we have shared FTF and other biggest we have shared FTF and then we have pomalidomide, then we have lapatinib, we have whole generic. We have launched this on last week of September. So we have all these smaller products and some big products. In terms of launch date, I think sometimes people tend to be open with their agreements. For example, lenalidomide, we actually are able to come out and say we are launching in this particular date, but sometimes, in certain agreements, they are very particular that we should not say the date and a lot of the newer agreements that we are doing, innovators are insisting that we should not come out and say the date and that is the nature of the business, and that is the nature of the confidentiality. I know it is frustrating, but it is what it is. I cannot help you there. I think we can only say that that they will happen, that is all we can say.
- Kashyap Karthik:** Sure, thank you very much.
- Moderator:** Thank you. The next question is from the line of Nikhil Mathur from Ambit Capital. Please go ahead.
- Nikhil Mathur:** Thank you for the opportunity again. My question was on Copaxone, so what is the reading is that a competing old drug in this therapeutic, a lot of approvals have been given certain launch that have happened, the launches are happening after it as well, does this have a bearing on Copaxone's volumes and pricing, the reason I ask is that extempore is a oral solid, it targets multiple sclerosis and possibly, the patient sometimes can be better in this clinical product and with compression coming in, the prices might go down, so have you take out any indications if this is eating into Copaxone shares from them?

Rajeev Nannapaneni: I have not seen much reduction in demand. I cannot answer that question because I am not aware of an impact yet. I do not have an answer to that question, but so far, the volumes have been stable. I think we are doing well with the market share and I think I would like to say that we are doing well, so as of now, I cannot answer that question. I think that is the best way I can say that.

Nikhil Mathur: Okay and second question. I mean Natco has a strategy and had been following this strategy over the years of doing limited competition products, first to files, entering into settlements with the innovators and all, but there has been also over the last 2, 3 years, growing activism in the U.S. on pricing, I mean whether be it explicit price rigging allegations or even on the settlements, there have been allegations that generic companies, along with innovators, have not been fair in terms of products that have been launched, do you believe that given the so much activism around pricing, your estimates on pricing of certain limited composite products that you would be launching, what estimates you were having 3, 4 years back, that might have come down a bit?

Rajeev Nannapaneni: Not really. I do not think so. I think estimations and all are depending on how you want to estimate. If you are estimating conservatively, then I do not think you have a problem. If you estimate a little more aggressively on the erosive meaning that you dig in, I mean to be honest, I am a conservative person. I think my estimates that I make for my earnings are fairly conservative and I think we always try to do more than what our own estimators and the political environment and all, I cannot really answer that question, but to answer your question, I have very conservative estimation, so I am always positively surprised, not negatively surprised.

Nikhil Mathur: Okay. So that is why the company is not really worried about so much of activism around pricing, be it on settlements as well?

Rajeev Nannapaneni: See again, we believe I think a lot of settlements that we have entered are subjected to scrutiny by FTC and I think from what I understand, a lot of these agreements are shared with FTC. So I think they are all vetted by the lawyers, and we think they are reasonably done, so I think that is all I can say.

Nikhil Mathur: Thank you.

Moderator: Thank you. The next question is from the line of Kunal Mehta from Vallum Capital. Please go ahead.



Natco Pharma Limited
November 13, 2020

- Kunal Mehta:** Thank you for the opportunity. Could you just give the status on the litigation of CCP, the status at it stands as of today?
- Rajeev Nannapaneni:** Your question is, what is the status of the...
- Kunal Mehta:** Agro chemical.
- Rajeev Nannapaneni:** It is pending in Delhi High Court. It is under our argument.
- Kunal Mehta:** Okay and Rajeev, can you at least give me the names you mentioned for the products to the previous caller regarding REMS for which we have done in different markets, U.S., Canada?
- Rajeev Nannapaneni:** You mean the REMS product you are saying or generally our products?
- Kunal Mehta:** Yes, the products for which we have executed the REMS and product cost practicing?
- Rajeev Nannapaneni:** I think I have just answered a general question. I said I have multiple REMS products. I think one product is lenalidomide was 1 REMS product and then I said pomalidomide U.S. was one REMS product, lenalidomide in Canada is another REMS product, pomalidomide in Canada is another REMS product, then I said Bosentan is another REMS product, which is with and we have a first to file on a new formulation of Bosentan.
- Kunal Mehta:** Got it. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Rohit Balakrishnan from Vrddhi Capital. Please go ahead.
- Rohit Balakrishnan:** Just 2 questions, on this Canada settlement, is there a launch, I do not want to date anything, just wanted to understand, is this a onetime settlement or there is going to be secured launch also?
- Rajeev Nannapaneni:** I cannot answer that question, my friend. I think we have already said that in the earlier comment that people have asked. We have settled the product, and we have a launch date secured to the agreement, that is all I can say.
- Rohit Balakrishnan:** I think your ANDA for Nexavar discontinued, just want to understand that has the ANDA been sold to another company or is there something that we need to be worried about on regular Nexavar, specifically?

- Rajeev Nannapaneni:** It is on the website listing. We just got approval recently. We had final approval recently. It is not discontinued. I do not think they have discontinued the ANDA. I do not know why is listed like that on the website. I think maybe because, I am only speculating again, I do not have an answer to that question, but maybe because we have not sold the product so far. So I think maybe that is why it is not reflected, but I will just get it verified. I will find out what is going on.
- Moderator:** Thank you. The next question is from the line of Sriraam Rathi from ICICI Securities. Please go ahead.
- Sriraam Rathi:** Thank you for taking my question again. Just 1 question, on API sales, I mean, in the half year, we have done more than what we did in full year last year?
- Rajeev Nannapaneni:** What is your question, Sriraam?
- Sriraam Rathi:** My question is that API revenue is higher than the full year revenue last year?
- Rajeev Nannapaneni:** We told; I think it is because of the stocking.
- Sriraam Rathi:** Thank you.
- Rajeev Nannapaneni:** Prakash, any questions, do you have, Prakash?
- Prakash Agarwal:** Yes. I will take the last one.
- Rajeev Nannapaneni:** Go ahead.
- Prakash Agarwal:** Yes. Just wanted to understand, how do you think about capital allocation once you start monetizing Revlimid starting March 2022, that will be fairly significant cash flows, so have you given any initial thoughts which markets, products, which areas you would like to spend that money?
- Rajeev Nannapaneni:** I think some portion of the capital that we receive usually will be given as dividend. We are giving what 25%, 30% dividend currently. So I think, hopefully, what to do in March 2022 and all, I think we will decide then. But typically, as a thumb rule, we are giving about 20%, 25% dividend and in terms of the capital allocation, I think we continue to believe that there are lot of niche opportunities available in this business. So I like to do an idea. Essentially, there are only two ideas at work. We do a commodity idea it does not work, so you have these 10 million, 15 million ideas, which offset sort of revenues. So those ideas, you need to have about 8 or 10 of those ideas. So you need to have an idea like lapatinib,

like a pomalidomide, which have that sort of potential, but actually it happens or not, it is a different story, but those are you have to have about 5 or 6 filings of those type and then you need to have like some filings, which can generate about 50 million, 100 million, 150 million, so those are harder to get, but when you get them, there is a relatively very large off set. So you need to mix them up, so you need to build a portfolio of these \$10 million, \$15 million ideas, about 10, 15 of them, and they need to build 2, 3 big ideas. I think that is what we are looking at and you must focus on NDTA, you need to focus on peptide chemistry, or you need to look at a non-impending position. You will take a challenge that a lot of people do not want to take, so you need to have a multiple pronged approach to doing this. I think that is how you want to look at it.

Prakash Agarwal: Perfect. Great and all the best. We can close the call to moderator.

Rajeev Nannapaneni: Thank you so much.

Moderator: Ladies and gentlemen, on behalf of Axis Capital, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.